

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 SPC-03 AID-20 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

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FM AMEMBASSY THE HAGUE

TO SECSTATE WASHDC 2577

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY COPENHAGEN

AMEMBASSY JAKARTA

AMEMBASSY LONDON

AMEMBASSY MANILA

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMEMBASSY VIENNA

AMEMBASSY WELLINGTON

USMISSION OECD PARIS

USUN NEW YORK 815

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SUBJECT: IGGI-15 - PRESS RELEASE

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PRESS RELEASE ISSUED EVENING OF DECEMBER 12 FOLLOWS:

A MEETING OF THE INTER-GOVERNMENTAL GROUP ON INDONESIA UNDER THE CHAIRMANSHIP OF MINISTER PRONK WAS HELD IN AMSTERDAM ON DECEMBER 11 AND 12, 1973. THIS WAS THE FIFTEENTH MEETING OF THE GROUP AND ITS OBJECTIVE WAS TO REVIEW INDONESIA'S CURRENT ECONOMIC SITUATION AND DEVELOPMENT PROSPECTS AND TO DISCUSS INDONESIA'S REQUEST FOR FOREIGN ASSISTANCE FOR THE FISCAL YEAR 1974/75.

DELEGATIONS FROM AUSTRALIA, BELGIUM, CANADA, FRANCE, THE FEDERAL REPUBLIC OF GERMANY, INDONESIA, ITALY, JAPAN, NEW ZEALAND, THE NETHERLANDS, SWITZERLAND, THE UNITED KINGDOM AND THE UNITED STATES, AND OBSERVERS FROM AUSTRIA, DENMARK AND NORWAY ATTENDED THE MEETING. REPRESENTATIVES OF THE INTERNATIONAL MONETARY FUND, THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, THE ASIAN DEVELOPMENT BANK AND THE UNITED NATIONS DEVELOPMENT PROGRAMME PARTICIPATED IN THE DISCUSSIONS. THE ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT WAS REPRESENTED AS AN OBSERVER.

IN REVIEWING THE RECENT DEVELOPMENTS OF THE ECONOMY THE DELEGATION OF INDONESIA STATED THAT, ALTHOUGH IN 1973 RICE PRICES HAD BEEN RELATIVELY STABLE, THERE HAD BEEN A CONTINUING INCREASE IN THE GENERAL PRICE LEVEL, ATTRIBUTABLE LARGELY TO HIGHER PRICES OF IMPORTED GOODS AND TO AN INCREASE IN THE GENERAL LEVEL OF ECONOMIC ACTIVITY. AS AN ADEQUATE SUPPLY OF RICE AT REASONABLE PRICES WAS CONSIDERED THE CRUCIAL REQUISITE IN MAINTAINING PRICE STABILITY, MAJOR EFFORTS WERE BEING UNDERTAKEN TO EXPAND RICE PRODUCTION; SUPPORT PRICES FOR THE FARMERS HAD BEEN INCREASED AND FURTHER ADJUSTMENTS WERE BEING CONSIDERED. THE BUDGET AND BALANCE OF PAYMENTS ESTIMATES FOR 1973/74 HAD BEEN REVISED IN THE LIGHT OF CHANGES IN INTERNATIONAL COMMODITY PRICES AND MORE BUOYANT DOMESTIC TAX REVENUES; THE SURPLUS OF REVENUES OVER ROUTINE EXPENDITURE WOULD BE LARGER THAN ORIGINALLY ESTIMATED. FOREIGN EXCHANGE RESERVES WOULD IMPROVE TO A GREATER EXTENT OWING MAINLY TO FURTHER INCREASES IN EXPORTS AND A CONTINUED INFLOW OF CAPITAL. IN ORDER TO RESTRAIN DOMESTIC DEMAND AND PRICE INCREASES THE GOVERNMENT HAS APPLIED A MORE RESTRICTIVE CREDIT POLICY. FOR 1974/75 THE FISCAL PROGRAMME PROVIDED FOR A SUBSTANTIAL INCREASE IN DOMESTIC REVENUE AND IN UNCLASSIFIED

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ROUTINE AND DEVELOPMENT EXPENDITURES. WITH REGARD TO THE ROLE OF PRIVATE FOREIGN CAPITAL, THE INDONESIAN GOVERNMENT WILL CONTINUE TO WELCOME PARTICIPATION OF PRIVATE FOREIGN CAPITAL IN THE DEVELOPMENT OF THE ECONOMY ON A MORE SELECTIVE AND MUTUALLY BENEFICIAL BASIS.

THE REPRESENTATIVES OF IMF AND IBRD IN PRESENTING THEIR REPORTS EMPHASIZED THE DEVELOPMENTS IN RICE PRODUCTION,

PROCUREMENT AND IMPORTS, THE FAVOURABLE DEVELOPMENTS IN INDONESIA'S EXPORT MARKETS AND THEIR IMPACT ON THE BALANCE OF PAYMENTS AND THE GOVERNMENT'S BUDGET, AND MEASURES BEING TAKEN TO RESTRAIN THE INFLATIONARY TENDENCIES IN THE ECONOMY.

THE GROUP STARTED ITS DELIBERATIONS WITH A REVIEW OF AGRICULTURAL DEVELOPMENTS AND PROSPECTS AND NOTED THAT RICE PRODUCTION HAD APPARENTLY RECOVERED FROM ITS SETBACK AT THE END OF 1972. THE INDONESIAN GOVERNMENT WILL CONTINUE ITS EFFORTS TO EXPAND AGRICULTURAL PRODUCTION, IN PARTICULAR FOOD PRODUCTION. QUESTIONS WERE RAISED REGARDING THE APPROPRIATENESS OF THE DOMESTIC RICE PRICE POLICY AND THE ATTENDANT LARGE BUDGET SUBSIDIES THIS HAD NECESSITATED IN 1973/74. IT WAS NOTED THAT THE RECENT PERIOD HAD BEEN ONE OF SHARP FLUCTUATIONS IN INTERNATIONAL FOODGRAIN PRICES AND THAT THE DOMESTIC PRICE POLICY HAD TO BE FORMULATED PARTLY WITH A VIEW TO FUTURE CHANGES IN WORLD PRICES AND TO ACHIEVING MORE FAVOURABLE TERMS OF TRADE FOR AGRICULTURE. CONCERN WAS EXPRESSED ABOUT THE TIMELY AVAILABILITY OF SUFFICIENT QUANTITIES OF FERTILIZER.

ON THE ISSUE OF EMPLOYMENT THE INDONESIAN DELEGATION DESCRIBED A NUMBER OF MEASURES THAT HAVE BEEN TAKEN TO INCREASE THE ABSORPTION OF LABOUR INTO THE ECONOMY. THEY INDICATED THAT THIS AREA WOULD BE A MAJOR INTEREST IN THE SECOND PLAN, DUE TO BEGIN 1 APRIL 1974, WHEN THERE WOULD BE A GREATER EMPHASIS ON SOCIAL DEVELOPMENT. SEVERAL GROUP MEMBERS EXPRESSED SUPPORT FOR EMPLOYMENT GENERATING PROJECTS AND STATED THEIR PREPAREDNESS TO FINANCE A PART OF LOCAL COSTS FOR SELECTED PROJECTS. THE MEETING WELCOMED CONTINUING DEVELOPMENT OF THE KABUPATEN AND OTHER EMPLOYMENT GENERATING PROGRAMMES. WITH REGARD TO THE ROLE OF FOREIGN PRIVATE INVESTMENT THE VIEW WAS EXPRESSED THAT SUCH INVESTMENT SHOULD CONTRIBUTE SIGNIFICANTLY TO THE CREATION OF EMPLOYMENT AND THAT UNDUE DEPLETION OF NATURAL RESOURCES, UNCLASSIFIED

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ESPECIALLY IN THE FORESTRY SECTOR SHOULD BE PREVENTED.

IN A DISCUSSION ON THE BUDGET THE IMF AND IBRD REPRESENTATIVES STATED THAT PROGRESS IN IMPROVING TAX AND CUSTOMS ADMINISTRATION TOGETHER WITH EXOGENOUS FACTORS HAD CONTRIBUTED TO A SHARP INCREASE IN BUDGET REVENUES IN 1973/74. REGARDING THE PRELIMINARY REVENUE ESTIMATES FOR 1974/75, OTHER THAN THOSE DERIVING FROM TAXES ON FOREI
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ON THE SUBJECT OF IMPEDIMENTS TO INTERNATIONAL TRADE, THE
INDONESIAN DELEGATION EMPHASIZED THE GAINS TO BE OBTAINED FROM A
MORE BALANCED INTERNATIONAL DIVISION OF LABOUR. IT REQUESTED THE
OTHER GROUP MEMBERS TO SUPPLY INFORMATION THROUGH THE APPROPRIATE
CHANNELS ON MEASURES BEING TAKEN TO MITIGATE NEGATIVE EFFECTS

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OF TARIFF AND NON-TARIFF BARRIERS TO INDONESIA'S EXPORTS, BOTH
OF PRIMARY PRODUCTS (E.G. PALM-OIL, COFFEE AND SPICES) AND OF
SEMI PROCESSED AND PROCESSED PRIMARY PRODUCTS.

IN ADDITION, THE INDONESIAN DELEGATION MENTIONED THE DIFFICULTIES
EMANATING FROM DISCRIMINATORY TREATMENT IN THE FORM OF TARIFF
PREFERENCES GIVEN TO OTHER DEVELOPING COUNTRIES WHO ARE ALSO
PRODUCING THE SAME OR SIMILAR PRODUCTS FOR EXPORT AS INDONESIA.
IT WAS NOTED THAT SUBSTANTIVE DISCUSSION OF THESE ISSUES WOULD

TAKE PLACE IN OTHER FORA.

THE GROUP DISCUSSED THE INDONESIAN GOVERNMENT'S REQUEST, SUPPORTED BY THE REPRESENTATIVES OF THE IMF AND IBRD, FOR \$850 MILLION OF EXTERNAL ASSISTANCE FOR 1974/75, CONSISTING OF \$550 MILLION OF PROJECT AID COMMITMENTS AND \$300 MILLION OF PROGRAMME AID DISBURSEMENTS, THE LATTER INCLUDING \$100 MILLION FOR FOOD AID.

AFTER EXAMINING THE BALANCE OF PAYMENTS PROSPECTS AND THE MAIN ELEMENTS OF THE DEVELOPMENT PROGRAMME FOR 1974/75, THE GROUP CONCLUDED THAT THE TOTAL AMOUNT OF THE AID REQUEST APPEARED APPROPRIATE. SEVERAL DELEGATIONS WELCOMED THE REDUCTION IN THE PROGRAMME AID COMPONENT WHICH WAS MADE POSSIBLE BY THE EXPECTED IMPROVEMENT IN THE BUDGETARY AND BALANCE OF PAYMENTS POSITION. WITH REGARD TO THE PROJECT AID COMPONENT, THE INDONESIAN DELEGATION WAS ENCOURAGED ESPECIALLY TO ACCELERATE THE PREPARATION OF PROJECTS IN THE SOCIAL SECTORS. FURTHER, THE NEED FOR A CONTINUING IMPROVEMENT IN PROJECT PREPARATION AND IMPLEMENTATION WAS STRESSED.

THE REPRESENTATIVES AGREED TO RECOMMEND THAT THEIR GOVERNMENTS TAKE THESE ESTIMATES INTO ACCOUNT IN THEIR BILATERAL NEGOTIATIONS WITH THE INDONESIAN AUTHORITIES ON ASSISTANCE IN THE COMING FISCAL YEAR. SOME MEMBERS WERE ALREADY IN A POSITION TO INDICATE THE ASSISTANCE THAT THEY EXPECTED TO PROVIDE FOR 1974/75 AND OTHERS INDICATED THAT THEY WOULD GIVE EARLY CONSIDERATION TO THEIR CONTRIBUTION.

THE GROUP REITERATED THE NEED TO ADAPT TERMS AND CONDITIONS OF ASSISTANCE TO INDONESIA'S FINANCIAL POSITION. SOME MEMBERS WERE ABLE TO REPORT FURTHER STEPS TOWARDS UNTYING OF AID WHICH THEY HAD ALREADY TAKEN OR WHICH WERE BEING CONSIDERED.

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INTEREST WAS EXPRESSED IN THE POSSIBILITY OF INTERNATIONAL SCHEMES ON UNTYING OF AID FOR PROCUREMENT IN DEVELOPING COUNTRIES INCLUDING THE RECIPIENT COUNTRY, AND ON RECIPROCAL UNTYING AMONG A GROUP OF DONOR COUNTRIES.

THE GROUP DECIDED TO MEET AGAIN ON 7-8 MAY, 1974.

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